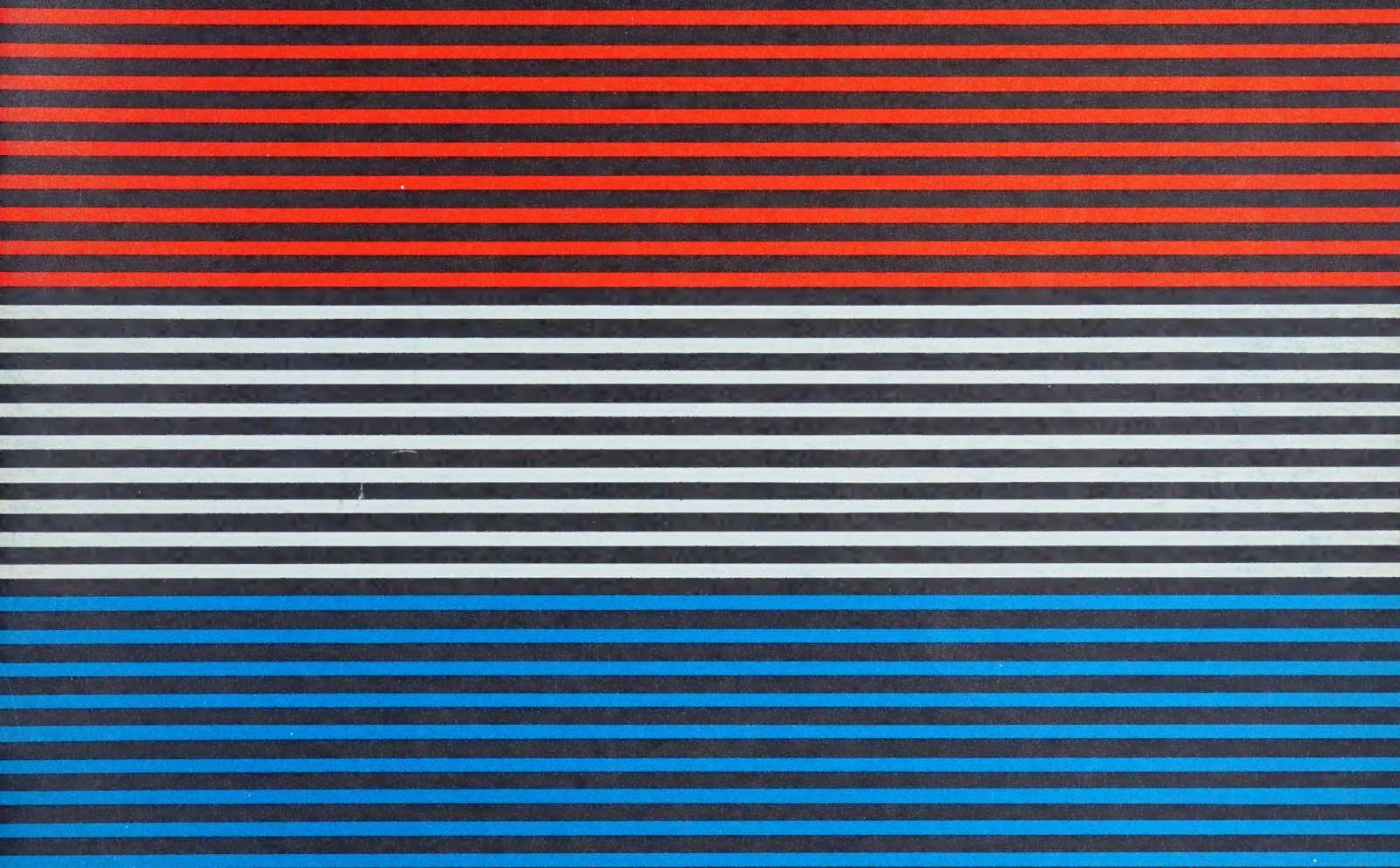


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Annual Report 1963

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Le Secrétaire
des Chemins de fer Nationaux du Canada,
C.P. 8100, Montréal (P.Q.),
enverra sur demande
le texte français
du Rapport annuel de 1963.

Copies of the 1963 Annual
Report in French may be
obtained, upon request, from:
The Secretary,
Canadian National Railways,
Box 8100, Montreal, Que.

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To The Honourable
The Minister of Transport
Ottawa, Canada

The Board of Directors submits
hereunder the Annual Report
of Canadian National Railways
for the year 1963.

Financial Review

General An upward movement in Canadian business activity generated heavy demands for transportation services in Canada in 1963. This activity gave Canadian National an opportunity to demonstrate its ability to maintain a determined sales effort for competitive traffic in a busy market, while at the same time meeting strenuous, above-normal demands for rail services. The overall result was that the System handled its second highest volume of railway business (as measured by revenue ton miles) in its history, and gross revenues from all services increased \$27.9 million over the previous year to an all-time high of \$800.0 million. The following table compares gross revenues in 1962 and 1963:

	1963 (Millions of Dollars)	1962	Increase
Railway Operating Revenues	\$725.2	\$701.6	\$23.6
Telecommunications (Commercial Services)	37.2	36.7	0.5
	762.4	738.3	24.1
Hotels (Excluding The Queen Elizabeth and Hotel Vancouver)	12.6	12.2	0.4
Separately Operated Trucking Companies	25.0	21.6	3.4
Gross Revenues	\$800.0	\$772.1	\$27.9

Railway operating revenues increased \$23.6 million or 3.4 percent to \$725.2 million, while expenses, at \$720.2 million, were \$12.8 million or 1.8 percent higher than 1962. The resulting net railway operating income of \$5.0 million represented a \$10.8 million improvement over the \$5.8 million operating loss in 1962. Other income, together with net income from hotels, telecommunications and separately-operated trucking companies amounted to \$16.2 million, producing a surplus of \$21.2 million. This surplus fell short by \$43.0 million of the amount needed to meet interest charges on outstanding debt. However, the outcome was an improvement of \$5.9 million over the 1962 results, and \$5.3 million better than that forecast in the System Operating Budget.

Railway Operating Revenues Revenues from freight services totalled \$573.5 million, an improvement of \$25.7 million or 4.7 percent over 1962. Principal contributors to higher revenues were new movements of potash, export grain shipments and increased shipments of automobiles and parts. Most of the increase in revenues from potash shipments represented new business for CN and came from the first full year of production at the potash mining development at Yarbo, Sask. While revenue ton miles were up 12.9 percent to 40.2 billion, the average revenue per ton mile declined 7.5 percent.

Revenues from freight services included \$10.1 million related to the Freight Rates Reduction Subsidy which reduces for shippers, on certain classes of traffic, the full effect of the last freight rate increase authorized by the Board of Transport Commissioners in 1958. The payments under this subsidy increased \$0.6 million mainly due to increased movements of commodities covered. For the same reason, there was a \$1.1 million increase in the East-West Bridge Subsidy which provides reduced rates to shippers on certain traffic moving between Eastern and Western Canada. There was also an increase of \$0.4 million in the amount received under the Maritime Freight Rates Act which reduces rates to shippers on traffic moving within and out of the Atlantic Provinces. Interim payments related to the recommendations of the Royal Commission on Transportation were \$1.1 million lower, reflecting the fact that the 1962 figure included adjustments in respect of 1961. The following table compares subsidy payments in 1962 and 1963:

	1963	1962	Increase or (Decrease)
	(Millions of Dollars)		
Freight Rates Reduction Subsidy	\$10.1	\$ 9.5	\$ 0.6
Maritime Freight Rates Act	11.3	10.9	0.4
East-West Bridge Subsidy	4.3	3.2	1.1
Total included in freight services revenues	25.7	23.6	2.1
Interim Payments	29.1	30.2	(1.1)
Newfoundland and P.E.I. Steamship Services	16.8	16.6	0.2
Total	\$71.6	\$70.4	\$ 1.2

Railway Operating Expenses Expenses were higher in 1963, arising in the main from an increase in the total compensation to employees. Improved wages and pension benefits and contributions to a job security fund amounted to \$12.5 million. Depreciation charges, taxes and material prices were also higher. Through close attention to controllable expenses, the higher costs were partially offset and despite an increase of 10.3 percent in the freight work load, as expressed in gross ton miles, railway operating expenses were held to an overall increase of \$12.8 million or 1.8 percent.

Depreciation charged to rail operations was \$87.2 million, up \$1.2 million from 1962. This constitutes the major portion of the total system depreciation of \$99.0 million for 1963, which exceeded 1962 by \$3.1 million, primarily due to increased investment in depreciable property.

System taxes increased by \$1.4 million to \$26.6 million in 1963 of which \$22.8 million was charged to railway operating expenses. Included in the System total were \$5.5 million for unemployment insurance, \$18.5 million for Canadian provincial and municipal and state taxes, and \$2.6 million for payments under the U.S. Railroad Retirement Act. Other taxes which were included in the purchase price of materials, amounted to \$19.3 million.

Equipment and joint facility rents were \$3.8 million, higher by \$0.7 million than in 1962 mainly because of increased use of leased cars.

Debt and Interest There was a reduction of \$51.1 million in the total interest-bearing debt made possible mainly from the excess over capital expenditures of the funds derived from the company's own resources including the sale of preferred stock. However, interest charges increased \$1.7 million to \$64.2 million due to higher interest costs arising from refunding of outstanding debt.

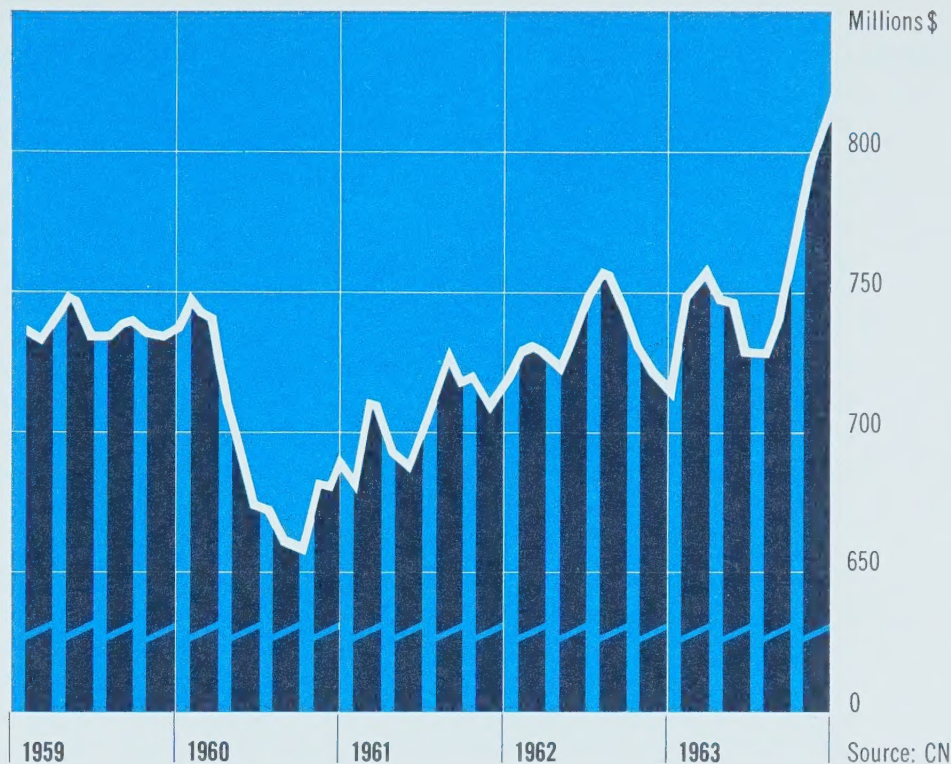
Capital Expenditures Capital expenditures chargeable to property investment account in 1963 and 1962 appear, by major categories, in the table below. They were financed entirely from funds generated internally and from the sale of preferred stock.

	1963 (Millions of Dollars)	1962
Road Property	\$ 66.0	\$ 55.3
Large Terminals	13.6	10.3
Branch Lines	3.8	5.6
Equipment	14.0	28.8
Telecommunications Facilities	27.3	11.7
Hotels	2.3	1.8
Total	\$127.0	\$113.5

Development

Research Construction of a new laboratory adjacent to Montreal Yard was undertaken in 1963 in response to growing demands for increased facilities for research programs into improved technology, methods and materials in the provision of transportation services. The laboratory also provides inspection and testing services for materials and supplies purchased by the System. Through its services, continuing attention will be given to such areas of research as soil mechanics, track material and structure, equipment design, lubrication, fuel, corrosion control and low temperature operations. Meanwhile, rewarding results emerged in 1963 from earlier studies. Reaching completion, for example, was the development of a special car equipped with sensitive electronic devices for measuring track conditions under normal train speeds and loads. The data obtained are used for setting track standards and judging the performance of track maintenance.

**Operating Revenues
Seasonally Adjusted at
Annual Rates**



nance machinery. Another technical achievement was the perfection of an electronic scale capable of weighing freight cars travelling at speeds up to 15 miles per hour. This scale, which is the first of its type to meet the rigid requirements of the Federal Government, is being installed in major classification yards. Advances were also made in the improvement of protective coatings for railway equipment and property by adapting new synthetic resins to railway uses. The improved protection provides more economical painting, reduced maintenance costs and longer life for equipment and structures.

Branch Lines Construction moved ahead on the Great Slave Lake Railway which, when completed, will extend 377 miles from Roma, near Grimshaw, Alta., to Hay River, N.W.T., with an additional 53-mile branch line to Pine Point Mines. At year-end, 226 miles of track had been completed, while clearing, grading, bridge and trestle work progressed on the remaining portion of the line. Also, administrative and operating facilities were built at Roma. The line is being opened as construction proceeds and some revenue traffic has been moving over portions of the line since 1962.

In October, the 61-mile rail extension to the Matagami Lake region of Northwestern Quebec was formally opened. The line serves zinc-copper mining developments. In New Brunswick, a 15-mile branch line was completed from Nepisiguit Junction, near Bathurst, to a zinc-lead-copper mining property. Also, an eight-mile extension was completed from Chisel Lake to Stall Lake in Northern Manitoba to transport ore from new copper-zinc mines.

Real Estate Urban development projects were advanced in several centres across Canada in 1963 in accordance with the System's program to redevelop its real estate holdings in co-operation with municipal authorities and private developers.

In Edmonton, Alta., agreement was reached with private interests for construction of a 26-storey building to house commercial offices and a passenger station. The structure will also provide accommodation for the railway's Mountain Region and Edmonton Area headquarters' staffs. Construction is scheduled to start early in 1964.

Proposals were invited in mid-1963 for the redevelopment of approximately 24 acres of Canadian National property in downtown Saskatoon, Sask. Earlier, general agreement had been reached with the city for the ultimate use of the property. For CN, the plan involves moving almost all of its facilities to Chappell on the southwestern outskirts of the city where a new freight yard, passenger station and Express Freight terminal are being built.

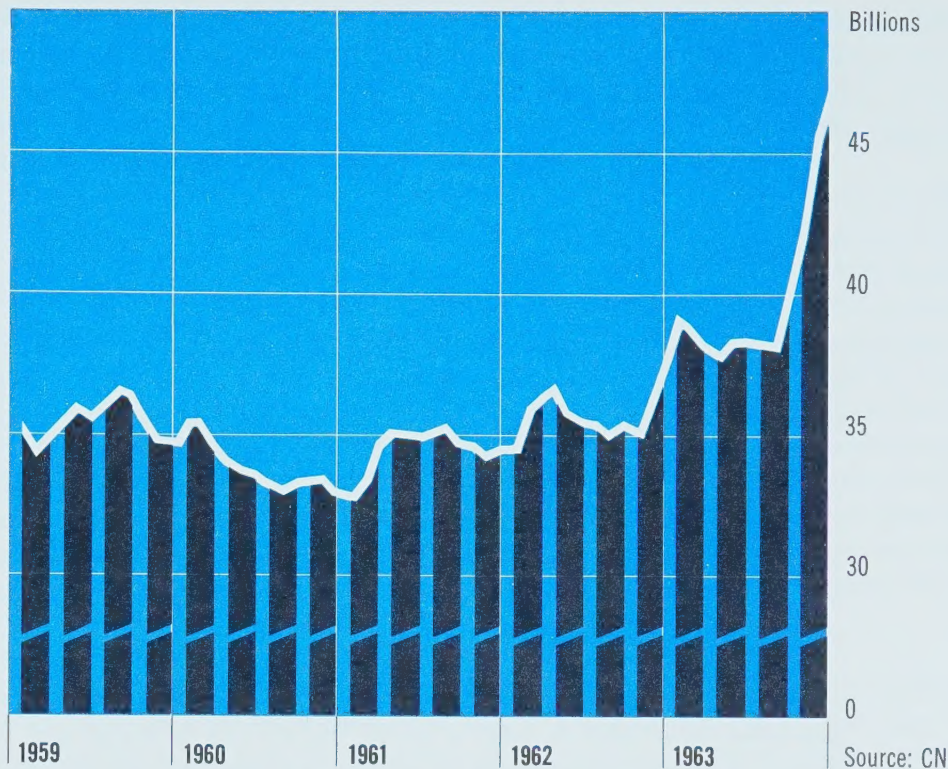
In Montreal, work will begin in 1964 on a 28-storey commercial office building east of the Queen Elizabeth Hotel on Dorchester Boulevard. Being built by private interests, it is another project in the overall redevelopment of Canadian National's property surrounding Central Station. Meanwhile, proposals were invited for the development of the air rights over the railway tracks south of Lagauchetiere Street. This area is a large city block in size and is the last of three major sections of property in the terminal area to be redeveloped. Also, in Central Station the concourse was enlarged to provide additional commercial space and expanded restaurant facilities, and a new and faster system for handling checked baggage was installed.

Industrial Development Canadian National continued to provide existing and prospective customers with a comprehensive industrial location service aimed at attracting new resource, industrial and commercial development in areas served by the System. During 1963, a total of 356 resource developments, manufacturing plants and major warehousing and distributing facilities were established in locations served by Canadian National freight services. An additional 181 industries, already served by CN, expanded their facilities. Of these new plants and expansions, some 248 required private sidings. A total of 38 miles of private sidings and industrial spurs was constructed during 1963.

Operations

Yards Construction moved ahead during the year on Toronto Yard, an electronically-controlled hump classification yard, and 34 miles of access lines. Scheduled for completion in 1965, the yard will divert and speed up freight operations, thereby relieving much of the current congestion in the centre of Toronto. Similar to yards already in operation at Moncton, Montreal and Winnipeg, the Toronto Yard will incorporate the latest developments in semi-automatic classification. It will be capable of receiving, classifying and despatching 6,000 freight cars a day and will have standing capacity for 10,300 cars.

**Revenue Ton-Miles
Seasonally Adjusted at
Annual Rates**



A new flat-type classification yard and associated diesel locomotive and car repair shop is under construction in Saskatoon as part of the program to remove railway operations from the centre of the city. In Newfoundland, the reconstruction of freight yards at Corner Brook and St. John's was substantially completed by year-end.

Track and Signals As part of continuing track maintenance and improvement programs, more than 600 miles of new rail was laid on principal lines in 1963. About 100 miles of partially worn rail was laid on light traffic lines, while more than 1.4 million ties were installed across the System.

Centralized Traffic Control signalling was installed along about 500 miles of mainline track in 1963. The work was carried out principally in Western Canada and brought the mileage of CTC-equipped track on the System to 3,209. A centrally-controlled signalling system, CTC expedites train movements and increases track capacity.

Data Processing A comprehensive data processing information system, covering all freight and passenger train movements, went into operation on the Atlantic, Mountain and Prairie regions. This computer-based information system assists management in improving customer services and in strengthening managerial controls to produce more economical and efficient operations. It is expected this system will be extended to the St. Lawrence and Great Lakes regions in 1964. This is one example of CN's efforts to realize the full potential of present-day data processing techniques.

Work Study Increased productivity is being achieved regularly through work study programs which seek out the most efficient use of men, materials and equipment. One of many examples is the recent introduction of a modern production planning and control system in main shops at Point St. Charles, (Montreal) and Transcona, Man. The results from this method of control have been encouraging and it will be applied to other repair facilities on the System.

Freight Services

Sales In many respects, the high volume of business obtained by Canadian National in 1963 represented concrete rewards from long-range sales-development programs that have been implemented as part of the System's comprehensive, market-oriented approach to the sale of railway services. This approach, adopted in 1960 and which involves adapting railway services to meet customer requirements, is growing in importance as a key to expanding CN's share of what promises to be a more openly competitive transportation market in the future. The freight sales organization is currently reviewing the system's competitive position in anticipation of greater freedom in pricing which may result from Federal Government legislation based on the recommendations of the Royal Commission on Transportation.

Customer Research Service, a new concept in customer relations and service, was offered on a System-wide basis in 1963. It makes the various technical and research groups within the railway available to customers to assist in developing systems for shipping or materials handling, and in seeking solutions to general distribution problems.

Services Productivity of freight trains reached a new peak in 1963 with an average of 56,600 gross ton miles per freight train hour for all types of freight trains. This was more than double the figure of 27,800 recorded in 1950. Scheduled fast freight trains alone averaged 83,500 gross ton miles per freight train hour.

A new fast freight train was inaugurated in October between Toronto and Winnipeg, with connections to points in Western Canada and the Pacific Coast. This was the third consecutive year in which a new fast freight train was placed in service to improve shipping schedules between Eastern and Western Canada.

"Aquatrains", the freight car ferry service inaugurated in 1962 between Prince Rupert, B.C. and Whittier, Alaska, was extended in 1963 by the addition of a rail car barge to serve the port of Saxman, on Ketchikan Island, Alaska.

The use of containers was expanded in certain operations, while studies were undertaken to find further specific uses for them, especially in the Express Freight field. One hundred and twenty-seven all-steel containers were built in railway shops to meet growing requirements in the shipping operations between the mainland and Newfoundland. The containers allow cargo to be transferred quickly and efficiently between train and ship at the loading and unloading points.

Piggyback services expanded in 1963 with tonnage increasing by 5.9 percent and revenues by 6.3 percent over 1962. Additional points in Ontario and British Columbia were included in Plan 1 piggyback under which commercial trailers are carried. In Montreal, a modern terminal was established in part of the old Turcot classification yard to facilitate piggyback operations.

Equipment Growing requirements for special-purpose freight equipment were met in 1963 through conversion programs and the purchase of new equipment. In order to increase the supply of cars for wheat traffic, 1,000 hopper cars, normally used for hauling gravel, were equipped with plywood tops in CN shops and placed temporarily in grain service. Modifications were made to 100 gondola cars and 50 box cars to make them suitable for handling wood chips, while another 100 gondola cars were equipped to carry pulpwood. Bulkheads were installed on 130 flat cars assigned to pulpwood or lumber traffic. One hundred and five ore cars were modified to handle pelletized ore. Doors were widened on 500 standard box cars in response to a growing demand for cars which can be loaded and unloaded by fork-lift trucks. Programs were started to convert 100 ice refrigerator cars to mechanical refrigeration through a method developed by CN, and to install underframe cushioning devices on 100 newsprint cars to protect loads from damage. New equipment orders included 55 tri-level automobile transporters, 100 covered aluminum hopper cars and 100, 70-ton flat cars.

Express Freight Express Freight, the System's co-ordinated road and rail service for package and non carload shipments, was further developed in 1963. The new service is emerging from the gradual consolidation of Express and LCL (less than carload) freight services across the System, and is based on trains handling the long haul, between centrally-located road-rail terminals, and highway vehicles performing pickup and delivery services in the districts surrounding these central points. An integral part of the development of Express Freight is the application of the master agency concept which provides customers in smaller and scattered communities with the advantages of urban-type railway communications and service. The master agency plan was tested in 1963 in the Atlantic Region where it has been well received by customers and community interests. A similar test is under way in the Mountain Region. Also, Express and LCL operations were integrated at a number of points on the System, including Bonaventure Terminal in Montreal, a modern streamlined Express Freight terminal capable of handling 9,000 parcels an hour. In Hamilton, Ont., tracks were re-arranged and other work carried out preliminary to construction of a large Express Freight terminal, to begin in 1964.

Trucking Subsidiaries Net operating profit for the eight separately-operated trucking companies and two associated terminal companies, whose stock is owned by Canadian National Transportation, Limited, was \$1.3 million.

Passenger Services

Sales Revenues from passenger services were \$44.4 million compared to \$44.0 million the previous year. This result was achieved despite a 6 percent reduction in the number of passenger train

miles operated and it maintained the position attained in 1962 when a prolonged decline in revenues was halted.

The System extended its comprehensive marketing and sales program in 1963. Directed toward expanding Canadian National's share of the travel market, it involves modern pricing concepts, improved schedules and equipment and expanded services for passengers.

The Red, White and Blue fare plan, in which ticket prices vary by days according to traffic demands, was extended following a one-year experiment between points in Quebec and the three Maritime provinces. The experiment indicated that passenger business could be substantially increased through this form of pricing and the new fare plan was extended to include Newfoundland, the transcontinental route, lines in Southwestern Ontario, four western provinces and, in cooperation with the Ontario Northland Railway, between Toronto and points in Northern Ontario.

Schedules and Services Coincident with the extension of Red, White and Blue fares, improvements were made to schedules, equipment and on-train services. The schedule of the Super Continental between Montreal-Toronto and Vancouver was shortened by almost three hours, providing more convenient departure and arrival times at all principal cities across the country. At the same time, smartly redesigned equipment was introduced. Coaches were refurnished and a refreshment lounge for coach passengers was added, while a club lounge was provided for passengers with sleeping accommodation. Coach accommodation was placed on a reserved basis, at no extra cost, and attendants were assigned to see to the needs of coach passengers.

Free coach reservations and services of attendants were also introduced on the Ocean Limited between Montreal and Halifax.

Other improvements in service included a reduction in the schedule and better equipment for the Scotian between Halifax and Montreal to provide a service comparable to that of the Ocean Limited and especially timed to make connections in Montreal with trains to and from Toronto and Southwestern Ontario. In New Brunswick, the conventional trains between Moncton and Saint John were replaced by self-propelled railiners to provide faster schedules.

Other travel features introduced in 1963 included charter coaches and sleepers for groups, and "Car-Go-Rail", whereby passengers' automobiles are transported in conjunction with their rail trips. A CN-financed "Charge-A-Trip" plan for travel on the System's lines in Canada went into effect early in 1964.

Administration In an administrative change in the sales organization at System Headquarters in January, 1964, the passenger sales and services function was given the status of a full department, headed by a vice-president. This move was in recognition of the growing importance Canadian National is attaching to its passenger business and acknowledges the public's response to CN's efforts to enlarge its share of the travel market.

Hotels

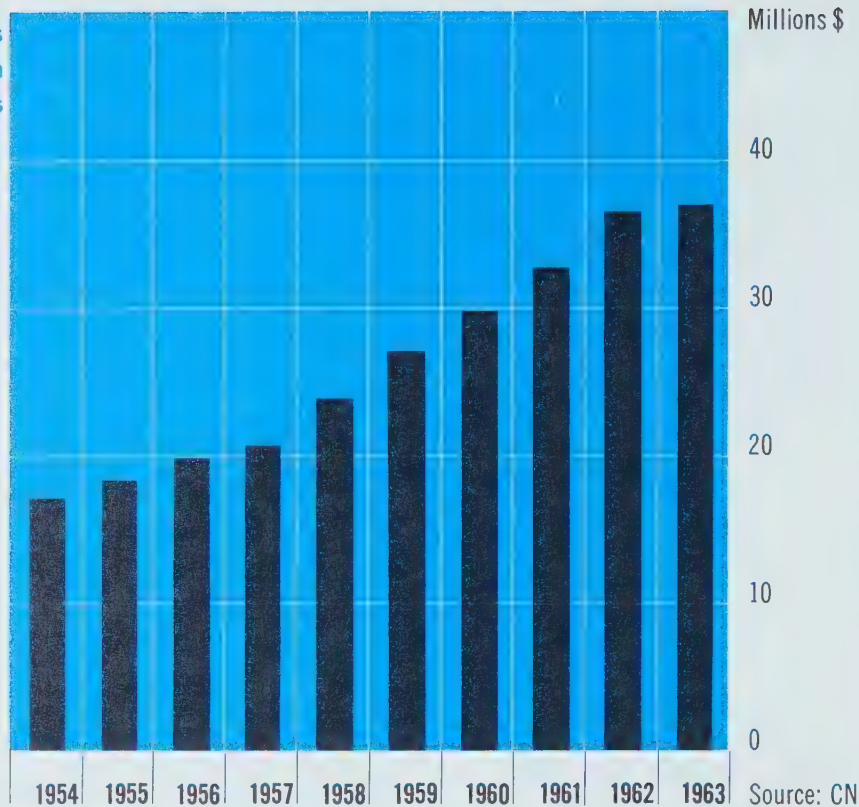
Financial Results Net income from hotel operations in 1963 was \$1.4 million, a decrease of \$0.9 million from 1962. While revenues of Canadian National Hotels were higher than in 1962, this increase was more than offset by increased operating expenses, the most significant of which was the cost of major exterior repairs to buildings. The decrease in the net return from the Hotel Vancouver is attributable mainly to a decline in revenues from 1962 when this hotel had the benefit of the Seattle World's Fair. The net return from The Queen Elizabeth Hotel was less than in 1962. This was due to the combination of lower revenues and increased expenses in the hotel and high expenses during the early operation of the new Place Ville Marie restaurants. The following table compares net income in 1963 and 1962:

	1963	Income or (Loss) 1962
Hotels operated by Canadian National:		
Income before major repairs	\$ 331,114	\$156,557
Major repairs to buildings	354,947	—
Net Income or (Loss)	(23,833)	156,557
Hotel Vancouver	(247,842)	116,496
Queen Elizabeth Hotel	1,622,393	2,012,918
Net Income from Hotels	\$1,350,718	\$2,285,971

Improvements A five-year program to modernize the hotels was begun in 1963. Plans call for air-conditioning, expanded parking facilities, refurnishing, redecorating and improved dining and other guest facilities. During the year, major projects included the continuation of the rebuilding program at Jasper Park Lodge, where nine multiple-unit cabins were built to replace 12 outdated structures; air-conditioning at the Fort Garry, Winnipeg, and the replacement of the cafeteria at the Chateau Laurier, Ottawa, by a new restaurant. Also at the Chateau, preliminary work was carried out for the renovation of the lower level and air-conditioning of the hotel. Improvements to guest rooms and public rooms were made at The Newfoundland, St. John's; The Nova Scotian, Halifax; The Charlottetown, in P.E.I.; and The Macdonald, Edmonton. A total of \$2.1 million was invested on these projects during the year.

Other Developments In July, Canadian National acquired Canadian Pacific's interest in the Vancouver Hotel Company Limited which operated the CN-owned hotel. Subsequently, an agreement was entered into with Hilton of Canada Limited for the management and operation of the hotel, an arrangement similar to that under which the Queen Elizabeth Hotel in Montreal is operated. A major renovation and modernization program will be carried out on the property over the next three years.

Telecommunications Revenues from Commercial Services



Telecommunications

Net income from all Telecommunications services was \$5.4 million in 1963, down \$0.2 million from 1962. While there was an increase in total revenues, this was offset by increased expenses resulting from higher depreciation and total wage costs. Higher revenues were recorded in Telex, telephone and leased wire services, while revenues from telegrams and broadcast facilities were lower.

Growth in plant capacity amounted to 64,000 carrier telephone channel miles and 66,000 carrier telegraph channel miles, for percentage increases of 11.5 and 5.2 respectively. Six new Telex exchanges were opened, bringing the total to 67 exchanges serving 614 communities across Canada. The number of subscribers rose to 6,000 from 4,600 in 1962.

Two new microwave systems were completed, the larger being the Montreal-Vancouver system built jointly by Canadian National and Canadian Pacific. With the existing systems east of Montreal, the new system forms a transcontinental trunk route serving major centres across Canada. It is also the North American land link for the Commonwealth Telecommunications System between the United Kingdom and Canada, New Zealand and Australia. Initially, the Montreal-Vancouver microwave system will be capable of carrying 600 voice channels which

may be used for telephone, telegraph, facsimile and other types of transmission. It can be expanded readily to provide additional voice channels or television services.

The second microwave facility, a tropospheric scatter-wave radio system, reaches from Hay River, N.W.T., to Lady Franklin Point on Victoria Island in the Arctic, a distance of 554 miles. While constructed for defence purposes, the system will also enable CN Telecommunications to provide commercial communications to Coppermine and Cambridge Bay, N.W.T.

Other activities in Northern Canada included: a start on construction of a 1,020-mile pole-line system which, when completed in 1965, will provide communication services to a number of communities in the Mackenzie River Valley between Hay River and Inuvik, N.W.T.; initial work for the expansion, in 1964, of the capacity of the 1,200-mile microwave system between Grande Prairie, Alta., and the Yukon-Alaska border, and a start on the installation of new telephone, telegraph and radio systems for the communities in northern British Columbia, the Yukon and Northwest Territories.

In Newfoundland, a project to increase the capacity of the microwave link between St. John's and Sydney, N.S., was begun. Also, construction of communications facilities to the North Coast and South Coast areas was undertaken, and dial telephone exchanges were installed in 18 communities in the province.

Personnel and Labor Relations

Labor Relations In November, new contract demands were received from unions representing more than 66,000 Canadian National employees. Involved are 15 unions, representing 57,500 non-operating employees, and the Brotherhood of Railroad Trainmen representing some 8,600 conductors, trainmen, and yard employees. Contracts with both groups expired on December 31, 1963, and in January 1964, a two-year agreement was reached with the Brotherhood of Railroad Trainmen involving an increase of 5 percent in wage rates. The non-operating unions negotiate jointly with Canadian National, Canadian Pacific and five other railroads. While a number of meetings was held between the railways and the unions' joint negotiating committee, no progress was made, and in January the parties sought the conciliation services of the Department of Labor.

Under the terms of the previous agreement with the non-operating unions, dated November 2, 1962, a joint management-union committee was established to work out the specific provisions of a Work Security Plan, and to revise seniority and related rules. The railways advanced an overall proposal for this project to the committee in April, and while progress was made in developing a workable plan, there were, at year-end, points in dispute which had yet to be settled.

In the United States, the Arbitration Board, established to hear the work rules dispute between the railways and their operating employees, announced its findings on November 26, 1963. The award provides for gradual elimination of firemen and establishes guidelines for the parties

to negotiate future changes in the make-up of train crews. Implementation of the award was delayed because the unions are contesting it before the courts.

During the year, eight contract settlements covering some 2,000 employees in seven hotels were achieved. In addition, five collective agreements were signed with other groups of employees including a five-year agreement for deck officers in the Newfoundland Steamship Services.

Employee Relations Training continued to receive special attention during the year. A new training centre was established at Saskatoon, bringing training opportunities within more convenient range of the Company's many western employees.

In addition to established programs to keep employees informed of new developments and other matters of interest to them, a series of meetings was held in June during which the President and other senior officers discussed the 1962 Annual Report and future Company activities with the general chairmen of unions representing CN employees. The meetings were reported by both parties as a new and useful form of communication between management and labor.

Continuing attention was given to the development and implementation of measures that will gradually cause the System to reflect the bicultural character of Canada to a greater degree in its operations and personnel composition.

Pensions and Welfare Total charges against CN earnings for pensions (excluding US Railroad Retirement taxes of \$2.6 million) in 1963 compared with 1962 were as follows:

	1963 (Millions of Dollars)	1962	Increase or (Decrease)
1935 and 1959 Pension Plans	\$28.2	\$26.3	\$1.9
Pre-1935 Plans, etc. (including I.C. & P.E.I. Railways Employees' Provident Fund)	7.0	7.1	(0.1)
Total	\$35.2	\$33.4	\$1.8

Exclusive of payments made under the US Railroad Retirement Act, there was paid to pensioners and beneficiaries, under the various Canadian National pension arrangements, a total of \$37.4 million in 1963, and 30,411 individuals were receiving such payments at the year end.

Charges against CN earnings for welfare plans providing hospital-surgical-medical benefits and life insurance were \$6.4 million in 1963.

Corporate Structure Under a continuing program to simplify the corporate structure of Canadian National Railway Company, six constituent companies were eliminated. They were Canadian National Hotels, Limited; The Central Counties Railway Company; The Montreal Stock Yards Company; The

Montreal Warehousing Company; Yellowknife Telephone Company, and, effective January 14, 1964, Montreal and Southern Counties Railway Company.

CN-CP Act Areas where co-operative measures might be undertaken were explored in discussions with the Canadian Pacific Railway Company.

Board of Directors On July 2, 1963, The Government appointed Mr. C. A. Pippy of St. John's, Newfoundland, to the Board of Directors for a term expiring September 30, 1965.

The Outlook

In many respects, 1963 was an exceptional year for Canadian National Railways. A buoyant economy and an unusually high demand for transportation services put to a rigid test the overall efficiency of the new plan of organization introduced early in 1961. Considering the complexity and the far-reaching nature of the changes which had been made, the first since the formation of the System in 1923, it was considered that noteworthy progress had been achieved in a relatively short time. The entire work force proved effective in enlarging the railway's share of traffic in competition with other carriers, and the capacity of the plant fulfilled the demanding objectives. The result was that the System did more business than ever before with gross sales reaching \$800 million, and had the second highest volume of revenue ton miles in any year of its history. It was significant that this volume of business was handled at an unparalleled level of efficiency. For example, the 40.2 billion revenue ton miles carried in 1963 was surpassed only by the 41.9 billion carried in 1956; the 1963 traffic, however, was handled with 13,000 fewer pieces of freight equipment than required in 1956, mainly because of improved car utilization and distribution techniques.

The 1963 performance illustrated, as well, the ability of the railway plant to absorb a large volume of additional business without greatly increasing its total expense. While the freight work load increased 10.3 percent over 1962, railway operating expenses rose only by 1.8 percent.

An important part of the achievement of 1963 was the contribution Canadian National made to the successful delivery of the large export grain orders. This immense task came upon the railway unexpectedly, and the Company responded in the national interest to meet the requirements of the Canadian Wheat Board efficiently and expeditiously. From the beginning of the 1963 crop year in August, the System transported 85,500 cars of grain, or 169 million bushels, and at year-end was more than 3,000 cars ahead of schedule in its deliveries. All of this additional work load was performed without disruption to regular services or other shipping needs.

The foregoing accomplishments, regarded as significant indicators of improved sales effort and operating efficiency, are not, however, apparent in the on-paper financial result. While gross sales were higher, the work load greater, and inventory and controllable expenses held firmly in line, the net income was insufficient to meet the interest burden which produced

a deficit of \$43 million. Most of this debt can be identified as a legacy from the past through a deficiency in depreciation practices which restricted the Company's ability to finance capital expenditures from internal sources. The provisions of the Capital Revision Act of 1952 have now run their normal term and, as was the understanding at that time, the effectiveness of the measures is being re-examined in light of approximately ten years' experience. The basic principle of the capital revision proposals which the Company has recommended to the Government is that the railway be relieved of the crushing burden of debt charges which make the annual profit and loss account such an inaccurate reflection of management and employee efficiency. In the new competitive environment envisioned by the intended legislation based upon the MacPherson Royal Commission on Transportation, it is deemed essential that Canadian National be placed in a position whereby it can be judged and held accountable on the same basis as its competitors. The Board of Directors and Management consider that if the Company is destined to chronic deficits, then this will not only be severely damaging to the morale of the personnel but could, in fact, have a detrimental effect on the important private enterprise sector of the transportation industry.

Canadian National is a valuable national asset and occupies a prime and unique role in the life of Canada. Its objectives of providing an efficient and economic transportation system can be fulfilled more satisfactorily if the accounts are placed on a basis that will reflect the true story of current operations, so that the annual results do not need qualification and explanation in respect of the past.

The Board of Directors once again takes pleasure in expressing its appreciation for the continued loyal services rendered by officers and employees throughout the System.



Signed on behalf of the Board of Directors.

Montreal, March 16, 1964

Executive and General Officers

Donald Gordon, C.M.G., LL.D., D.C.L., President
N. J. MacMillan, Q.C., Executive Vice-President
S. F. Dingle, System Vice-President
R. H. Tarr, Vice-President and Executive Assistant
R. T. Vaughan, Secretary of the Company
K. E. Dowd, M.D., C.M., F.A.C.S.,
Chief Medical Officer
C. A. Harris, Director of Public Relations
E. A. Spearing, M.B.E., Director of Investigation

Accounting and Finance

J. L. Toole, Vice-President
L. J. Mills, O.B.E., Comptroller
E. J. Denyar, Treasurer

Highway Services

F. A. Gaffney, Vice-President

Law

H. C. Friel, Q.C., Vice-President
Lionel Côté, Q.C., General Counsel

Personnel and Labour Relations

W. T. Wilson, Vice-President
T. A. Johnstone, Assistant Vice-President,
Labour Relations
George Lach, Assistant Vice-President, Personnel

Purchases and Stores

E. A. Bromley, Vice-President
T. M. Pye, General Purchasing Agent

Research and Development

Maurice Archer, Vice-President
D. F. Purves, Assistant Vice-President
J. P. Blanchet, General Manager, Real Estate

Freight Sales

A. H. Hart, Vice-President
E. A. Ryder, Deputy Vice-President
G. R. Johnston, General Sales Manager, Freight

Passenger Sales and Services

Pierre Delagrave, M.B.E., Vice-President

Transportation and Maintenance

J. W. Demcoe, Vice-President
D. M. Trotter, Assistant Vice-President

Atlantic Region

H. C. Grayston, Vice-President, Moncton
E. J. Cooke, General Manager
E. K. House, Manager, Newfoundland Area, St. John's
J. G. Davis, Manager, Maritime Area, Moncton
L. M. Poitevin, Manager, Chaleur Area, Campbellton

St. Lawrence Region

J. A. McDonald, Vice-President, Montreal
C. A. Bérubé, General Manager
A. A. Audet, Manager, Quebec Area, Quebec City
J. J. F. Roberts, Manager, Montreal Area, Montreal
R. J. Hansen, Assistant Manager, Montreal Area
J. H. Richer, Manager, Champlain Area, Montreal
K. E. Hunt, Manager, Rideau Area, Belleville

Great Lakes Region

D. V. Gonder, Vice-President, Toronto
Eric Wynne, Vice-President *
E. P. Stephenson, General Manager
J. H. Spicer, Manager, Toronto Area, Toronto
R. H. Menary, Assistant Manager, Toronto Area
C. J. Morris, Manager, London Area, London
G. H. Bloomfield, Manager,
Northern Ontario Area, Capreol

Prairie Region

W. C. Bowra, Vice-President, Winnipeg
A. Skinner, General Manager
C. T. Cameron, Manager, Lakehead Area, Port Arthur
L. H. B. Gooding, Manager, Winnipeg Area, Winnipeg
H. J. Fast, Manager, Assiniboine Area, Winnipeg
E. S. Barker, Manager, Hudson Bay Area, Dauphin
A. E. Street, Manager, Saskatchewan Area, Saskatoon

Mountain Region

G. R. Graham, Vice-President, Edmonton
W. D. McPherson, General Manager
W. B. Jackson, Manager, Edmonton Area, Edmonton
G. F. V. Middleton, Manager, Calgary Area, Calgary
J. A. Pollock, Manager,
British Columbia Area, Vancouver

Grand Trunk Western Railroad

H. A. Sanders, Vice-President
and General Manager, Detroit

Telecommunications

J. R. White, General Manager, Toronto
H. J. Clarke, Assistant General Manager

Hotels

S. S. Chambers, General Manager, Montreal

European Organization

J. C. Kenkel, General Manager, London, England

*Retired, January 1, 1964

Companies Included in the Canadian National System

Canadian National Railway Company
Canadian National Express Company
Canadian National Railways (France)
Canadian National Realities, Limited
Canadian National Steamship Company, Limited
Canadian National Telegraph Company
Canadian National Transfer Company
Canadian National Transportation, Limited
The Canadian National Railways Securities Trust
The Canadian Northern Quebec Railway Company
Eastern Transport Limited
East-West Transport Ltd.
Empire Freightways Limited
The Great North Western Telegraph Company of Canada
Hoar Transport Company Limited
Husband Transport Limited
Midland Superior Express Limited
The Minnesota and Manitoba Railroad Company
The Minnesota and Ontario Bridge Company
Montalta Holdings Limited
Montreal and Southern Counties Railway Company
Mount Royal Tunnel and Terminal Company, Limited
The Northern Consolidated Holding Company Limited
The Quebec and Lake St. John Railway Company
Sydney Transfer and Storage Limited
The Toronto-Peterborough Transport Company, Limited
Vancouver Hotel Company Limited
Wacos Holdings Limited
Central Vermont Railway, Inc.
Central Vermont Transportation Company
Duluth, Rainy Lake & Winnipeg Railway Company
Duluth, Winnipeg and Pacific Railroad Company
Duluth, Winnipeg and Pacific Railway Company
Grand Trunk-Milwaukee Car Ferry Company
Grand Trunk Western Railroad Company

- In addition, the property of the Canadian Government Railways is entrusted to the Canadian National Railway Company as part of the system.

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Consolidated Balance Sheet at December 31, 1963

Assets

Current Assets	Cash	\$ 32,707,012	
	Accounts receivable	87,811,533	
	Material and supplies	62,990,782	
	Other current assets	20,275,051	
	Government of Canada — Due on deficit account	8,513,517	\$ 212,297,895
Insurance Fund			17,500,000
Investments in Affiliated Companies	Not Consolidated		
	Trans-Canada Air Lines	242,471,000	
	Jointly operated rail and terminal facilities	48,539,703	291,010,703
Property Investment	Road	2,515,851,946	
	Equipment	1,324,952,640	
	Other physical properties	123,694,663	
		3,964,499,249	
	Less recorded depreciation	801,049,925	3,163,449,324
Other Assets and Deferred Charges	Other investments	3,576,549	
	Prepayments	2,464,684	
	Unamortized discount on long term debt	19,489,453	
	Other assets	9,989,523	
	Deferred charges	10,578,349	46,098,558
			\$3,730,356,480

Liabilities

Current Liabilities	Accounts payable	\$ 64,815,458	
	Accrued charges	23,756,029	
	Other current liabilities	3,052,302	\$ 91,623,789
Provision for Insurance			17,500,000
Other Liabilities and Deferred Credits			33,113,192
Long Term Debt	Bonds	1,380,898,764	
	Government of Canada loans and debentures	410,354,762	1,791,253,526

Shareholders' Equity

Government of Canada	6,000,000 shares of		
	no par value capital stock of Canadian National Railway Company	359,963,017	
	991,504,556 shares of		
	4% preferred stock of Canadian National Railway Company	991,504,556	
	Capital investment of		
	Government of Canada in the Canadian Government Railways	440,912,615	
		1,792,380,188	
Capital Stock of Subsidiary Companies Owned by Public		4,485,785	1,796,865,973
			\$3,730,356,480

The notes on page 22 are an integral part of this Balance Sheet.

L. J. Mills, Comptroller.

Consolidated Income Statement

	1963	1962
Railway Operating Revenues	\$725,181,334	\$701,622,754
Railway Operating Expenses	720,169,669	707,442,091
Net Railway Operating Income or (Loss)	5,011,665	(5,819,337)
Net Income from:		
Telecommunications department	5,367,458	5,619,686
Hotels	1,350,718	2,285,971
Separately operated trucking companies	1,283,213	875,975
Other income	8,177,720	10,616,841
	16,179,109	19,398,473
Net Income before Interest on Debt	21,190,774	13,579,136
Interest Charges:		
Total interest on debt	75,822,804	74,017,366
Less interest received on loans to Trans-Canada Air Lines	11,618,513	11,518,776
Net Interest on Debt	64,204,291	62,498,590
(Deficit)	\$ (43,013,517)	\$ (48,919,454)

Auditors' Report

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1963 and the consolidated income statement for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the System at December 31, 1963 and of the results of its operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the System, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, proper books of account have been kept by the System and the transactions that have come under our notice have been within the powers of the System.

McDonald, Currie & Co.,
Chartered Accountants.

February 25, 1964

Notes to Consolidated Financial Statements at December 31, 1963

Note 1: Property Investment

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that these have not been retired or replaced. Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1963. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2: Material and Supplies

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Note 3: Capital Stock

The capital stock of the Canadian National Railway Company (other than the four per cent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 4: Major Commitments

(a) Pension Funds:

The Company has given a written acknowledgement to the Trustee of the Pension Funds for an amount not exceeding \$395,000,000 for the outstanding liability in respect of prior service of active employees.

(b) Vacation Pay:

In accordance with past practice the Company has not recorded the liability for vacations earned in 1963 which will be paid in 1964.

(c) Chicago & Western Indiana Railroad Company:

The Grand Trunk Western Railroad Company is liable jointly and severally with four other proprietors as guarantor of principal and interest with respect to \$10,997,000 First Collateral Trust Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds due May 1, 1982 of the Chicago & Western Indiana Railroad Company. In addition, the proprietors are obligated to make annual sinking fund payments sufficient to retire the bonds at maturity and to meet interest as it falls due; in the absence of default of any of the other proprietors, Grand Trunk Western's proportion of such annual payments is one-fifth.

(d) The Belt Railway Company of Chicago:

The Grand Trunk Western Railroad Company is liable jointly and severally with eleven other proprietors as guarantor of principal, interest and sinking fund payments with respect to \$36,505,000 First Mortgage 4 $\frac{5}{8}$ % Sinking Fund Bonds series "A", due August 15, 1987 of the Belt Railway Company of Chicago. Each proprietor is to make payments to the extent required in proportion to its usage of the Belt's facilities in the preceding three years. For the three years ended December 31, 1963 Grand Trunk Western Railroad's usage was approximately 2.1% of the total.

(e) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable with one other proprietor as guarantor of principal, interest and sinking fund payments with respect to \$2,708,000 First Mortgage 3 $\frac{1}{4}$ % 30-year series "A" Bonds, due December 1, 1982 of the Detroit & Toledo Shore Line Railroad Company.

Railway Operating Revenues

	1963	1962
Freight Services	\$573,477,011	\$547,799,257
Passenger Services:		
Passenger	34,491,894	34,331,531
Sleeping, dining and parlour car, etc.	9,862,221	9,645,296
	44,354,115	43,976,827
Mail	10,626,819	11,030,572
Express	45,602,316	46,963,146
Other	22,064,172	21,650,472
Interim Payments — Royal Commission on Transportation	29,056,901	30,202,480
	\$725,181,334	\$701,622,754

Railway Operating Expenses

Road Maintenance	\$143,181,049	\$142,878,959
Equipment Maintenance	151,924,929	148,450,417
Transportation	312,530,459	309,058,698
Sales	17,182,774	16,361,800
Miscellaneous	6,956,866	6,152,519
General	61,725,269	58,704,428
	693,501,346	681,606,821
Railway Tax Accruals	22,839,768	22,746,605
Equipment and Joint Facility Rents	3,828,555	3,088,665
	\$720,169,669	\$707,442,091

Other Income

Rent Income	\$ 3,707,769	\$ 3,443,272
Interest Income	2,160,206	1,976,129
Dividend Income	294,311	239,617
Amortization of premiums on shares purchased	(2,092,660)	—
Profit from sale of real property	4,548,963	2,435,994
Increased provision for insurance	(2,500,000)	—
Miscellaneous (Net)	2,059,131	2,521,829
	\$ 8,177,720	\$ 10,616,841

Property Investment Statement

Property Investment at December 31, 1962		\$3,890,909,261
Capital Expenditures in 1963		
New lines and diversions	\$16,894,937	
Roadway improvements	36,784,387	
Large terminals	13,569,383	
Yard tracks and sidings	1,933,865	
Buildings	3,817,361	
Highway crossing protection	249,235	
Signals	3,384,432	
Roadway and shop machinery	1,685,641	
Other facilities	1,335,151	
Total — Road Property	79,654,392	
Branch lines	3,767,491	
Equipment	14,027,119	
Telecommunications	27,335,643	
Hotels	2,265,537	\$127,050,182
Government of Canada net expenditure on Canadian Government Railways		
Additions — U.S. Lines — in accordance with I.C.C. Order No. 32153		1,645,579
		545,500
Additions to property in 1963	129,241,261	
Deduction in respect of property retirements in 1963	55,651,273	73,589,988
Property Investment at December 31, 1963		\$3,964,499,249

Recorded Depreciation Statement

Recorded Depreciation at December 31, 1962		\$ 738,344,856
Add Provision for depreciation for the year		
Road property	\$ 50,097,625	
Equipment	45,058,777	
Other Physical Properties	3,892,679	\$ 99,049,081
Increase in recorded depreciation — U.S. Lines — in accordance with I.C.C. Order No. 32153		
		545,500
	99,594,581	
Deduct Net Charges in respect of property retirements	36,889,512	62,705,069
Recorded Depreciation at December 31, 1963		\$ 801,049,925

Long Term Debt

	Rate %	Maturity (See Note)		Currency in which payable	Outstanding at Dec. 31, 1962	Transactions Year 1963 Increase or Decrease	Outstanding at Dec. 31, 1963
Bonds	2¾	Feb. 1, 1963	Canadian National 8 Year 1½ Month Bonds	Canadian	\$ 250,000,000	\$250,000,000	
	5½	Dec. 15, 1964 a, g	Canadian National 5 Year Bonds	Canadian	198,711,000	639,000	\$ 198,072,000
	3	Jan. 3, 1966 b	Canadian National 17 Year Bonds	Canadian	35,000,000		35,000,000
	2¾	Jan. 2, 1967 b	Canadian National 20 Year Bonds	Canadian	50,000,000		50,000,000
	4½	Apr. 1, 1967 g	Canadian National 6½ Year Bonds	Canadian	72,300,000		72,300,000
	5	May 15, 1968 g	Canadian National 9 Year Bonds	Canadian	55,800,000		55,800,000
	2¾	Sept. 15, 1969 c	Canadian National 20 Year Bonds	Canadian	70,000,000		70,000,000
	2¾	Jan. 16, 1971 d	Canadian National 21 Year Bonds	Canadian	40,000,000		40,000,000
	5½	Dec. 15, 1971 g, h	Canadian National 12 Year Bonds	Canadian	289,000	639,000	928,000
	3¾	Feb. 1, 1974 e	Canadian National 20 Year Bonds	Canadian	200,000,000		200,000,000
	2¾	June 15, 1975 f	Canadian National 25 Year Bonds	U.S.	6,000,000		6,000,000
	5	May 15, 1977 g	Canadian National 18 Year Bonds	Canadian	84,600,000	450,000	84,150,000
	4	Feb. 1, 1981	Canadian National 23 Year Bonds	Canadian	300,000,000		300,000,000
	5¾	Jan. 1, 1985 g	Canadian National 25 Year Bonds	Canadian	99,500,000		99,500,000
	5	Oct. 1, 1987 g	Canadian National 27 Year Bonds	Canadian	168,675,000	1,550,000	167,125,000
	4½	Sept. 15, 1979	Grand Trunk Western Note	Can.-U.S.	400,000	400,000	
	5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds	Sterling	795,366		795,366
	5½	Perpetual	Buffalo and Lake Huron 2nd Mortgage Bonds	Sterling	1,228,398		1,228,398
	5	Perpetual	Debenture Stock	Sterling	20,309	20,309	
	Total Bonds					1,633,319,073	252,420,309
Government of Canada Loans and Debentures	Capital Revision Act: Jan. 1, 1972 Debenture			Canadian	100,000,000		100,000,000
	Canadian Government Railways: Advances for Working Capital			Canadian	16,983,762		16,983,762
	Financing and Guarantee Acts: Loans			Canadian	58,206,244	2,835,244	55,371,000
	Refunding Act, 1955: Loans for Debt Redemption			Canadian	33,836,787	204,163,213	238,000,000
	Total Government of Canada Loans and Debentures					209,026,793	201,327,969
Total Long Term Debt					\$1,842,345,866	\$ 51,092,340	\$1,791,253,526

Note: a Exchangeable on or before June 15, 1964 for 5½% bonds due Dec. 15, 1971
b Callable at par
c Callable at par on or after Sept. 15, 1964
d Callable at par on or after Jan. 16, 1966
e Callable at par on or after Feb. 1, 1972
f Callable June 14, 1962 to June 14, 1966 at 101%; thereafter to June 14, 1970 at 100½%; thereafter at par.
g Amounts of ¼% or 1% of the original issues
h Issued in exchange for 5½% bonds due December 15, 1964.
may be purchased quarterly through Purchase Funds operated under the conditions of each issue.

Shareholders' Equity

Government of Canada	No par value capital stock of Canadian National Railway Company	\$ 359,963,017		\$ 359,963,017
	4% Preferred stock of Canadian National Railway Company	968,746,872	\$ 22,757,684	991,504,556
	Capital investment in Canadian Government Railways	439,267,036	1,645,579	440,912,615
Total Government of Canada		1,767,976,925	24,403,263	1,792,380,188
Capital Stock of Subsidiary Companies Owned by Public		4,499,261	13,476	4,485,785
	Total Shareholders' Equity	\$1,772,476,186	\$ 24,389,787	\$1,796,865,973

Investments in Jointly Operated Rail and Terminal Facilities

			Investment at Dec. 31, 1962	Transactions Year 1963 Increase or Decrease	Investment at Dec. 31, 1963
		Percentage Held			
The Belt Railway Company of Chicago	Capital Stock	8.33	\$ 240,000		\$ 240,000
	Advances		46,731	\$14,942	61,673
Chicago & Western Indiana Railroad Company	Capital Stock	20	1,000,000		1,000,000
	Advances		7,113,869	27,132	7,086,737
The Detroit & Toledo Shore Line Railroad Company	Capital Stock	50	1,500,000		1,500,000
Detroit Terminal Railroad Company	Capital Stock	50	1,000,000		1,000,000
Northern Alberta Railways Company	Capital Stock	50	8,540,000		8,540,000
	Bonds	50	16,902,500		16,902,500
The Public Markets, Limited	Capital Stock	50	575,000		575,000
Railway Express Agency, Inc.	Capital Stock	0.6	600		600
	Advances		173,493		173,493
The Shawinigan Falls Terminal Railway Company	Capital Stock	50	62,500		62,500
The Toronto Terminals Railway Company	Capital Stock	50	250,000		250,000
	Bonds	50	11,012,200	65,000	10,947,200
	Advances		200,000		200,000
Total			\$48,616,893	\$77,190	\$48,539,703

Source and Application of Funds for the Year 1963

Working Capital January 1, 1963		\$129,532,936
Source of Funds	Provision for Depreciation	\$ 99,049,081
	Issue of 4% Preferred Stock	22,757,684
	Government of Canada in respect of deficit for the year	43,013,517
	Retained proceeds from Properties Retired	18,761,761
	Victoria Bridge Track Diversion	13,980,827
	Other (net)	14,734,339
		\$212,297,209
Application of Funds	Additions to Property Investment	\$127,050,182
	Deficit for the Year	43,013,517
	Decrease in Long Term Debt	51,092,340
		\$221,156,039
Net Decrease in Working Capital		8,858,830
Working Capital December 31, 1963		\$120,674,106

Inventory of Railway Equipment

On Hand Dec. 31, 1963		
Motive Power Equipment	Diesel Electric Units	2,114
	Electric Locomotives	27
	Steam Generator Units	108
	Total	2,249
Freight Equipment	Box, Flat and Stock Cars	73,316
	Refrigerator Cars	4,919
	Gondola and Hopper Cars	23,403
	Caboose and Other Cars	2,043
	Total	103,681
Passenger Equipment	Coach Cars	677
	Sleeping, Dining, Parlour and Tourist	550
	Baggage, Mail and Express	1,274
	Other Cars in Passenger Service	229
	Total	2,730
Work Equipment	Units in work service	9,145
Floating Equipment	Car Ferries	6
	Steamers	14
	Barges, Tugs and Work	11
	Total	31

Operated Mileage at December 31, 1963

		Owned	Leased	Trackage Rights	Total
Operated Road Mileage — first main track	Atlantic Region	3,859	1	83	3,943
	St. Lawrence Region (including New England Lines)	3,903	7	16	3,926
	Great Lakes Region	3,303		16	3,319
	Prairie Region (including Duluth, Winnipeg and Pacific)	8,104		5	8,109
	Mountain Region	4,066	35	85	4,186
	Grand Trunk Western Lines	879	10	58	947
	Central Vermont Lines	308		59	367
	Total	24,422	53	322	24,797
	Lines in Canada	22,829	36	202	23,067
Lines in United States	1,593	17	120	1,730	
Operated Mileage — all tracks	First main track	24,422	53	322	24,797
	All other main lines	1,133		82	1,215
	Spurs, sidings and yard tracks	7,073	16	1,652	8,741
	Total all tracks	32,628	69	2,056	34,753

Pension Trust Funds Balance Sheet at December 31, 1963

Assets

Current Assets	Cash: In Banks — Current Accounts	\$	285,069	
	— Time Deposits		900,000	
	Deposits with Trust Companies		1,787,392	
			2,972,461	
	Accrued interest on investments		4,167,468	
	Accounts receivable:			
	Canadian National Railways — current account		1,659,936	
	Banks, Insurance and Trust Companies re Mortgages		394,746	
	Other		26,481	\$ 9,221,092
Investments	Stocks — at cost	(Market value \$ 62,333,607)	55,765,863	
	Bonds — at amortized value	(Market value \$261,804,866)	282,625,280	
	Mortgages — at amortized value	\$143,065,760		
	less holdbacks	77,081	142,988,679	481,379,822
Canadian National Railways	Acknowledged liability in respect of past service of employees			395,000,000
				<u>\$885,600,914</u>

Liabilities

Current Liabilities	Accounts Payable	\$	113,977	
Reserve for Pensions	In respect of pensions in force and pensions accruing to active employees under the 1935 and 1959 Pension Plans		885,486,937	
			<u>\$885,600,914</u>	
	Note: The Reserve for Pensions includes the accumulated contributions of certain employees in service, with interest thereon, which are held in trust under the rules of the 1935 Pension Plan as follows:			
	Annuity Trust Fund	\$	12,945,901	
	Supplemental Annuity Trust Fund		2,419,642	
		<u>\$</u>	<u>15,365,543</u>	

L. J. Mills,
Comptroller

Pension Trust Funds Statement of Reserve at December 31, 1963

Reserve at December 31, 1962		\$845,599,085
Addition to Reserve during the year:	Contributions from employees on account of —	
	Current service	\$18,408,485
	Prior years' deficiencies	4,642,264
		23,050,749
	Less refunds on termination of service, etc.	3,368,030
		\$19,682,719
	Contributions by the Company	28,146,069
	Net earnings on contributions made by the Company and employees	21,535,338
		69,364,126
Deductions from Reserve during year:		914,963,211
	Pensions paid	29,476,274
Reserve at December 31, 1963		\$885,486,937

Auditors' Report

To the Trustee,
Canadian National Railways Pension Funds.

We have examined the balance sheet of the Pension Trust Funds of the 1935 and 1959 Pension Plans of Canadian National Railways at December 31, 1963 and the statement of reserve for pensions for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statement of reserve for pensions are properly drawn up so as to give a true and fair view of the state of the affairs of the Funds at December 31, 1963 and of the results of their operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the Funds, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, proper books of account have been kept by the Trustee and that the transactions that have come under our notice have been within the powers of the Trustee.

McDonald, Currie & Co.,
Chartered Accountants

February 25, 1964

Actuarial Certificate

This is to certify that the Reserve for Pensions shown in the Balance Sheet of the Pension Trust Funds of Canadian National Railways, amounting to \$885,486,937 as at December 31, 1963, in my opinion, represented adequate provision for the accumulated liabilities of pensions then approved and in force, pensions awaiting approval and pensions accrued to the above date in respect of employees then in service under the 1935 and 1959 Plans, excluding pensions granted under prior Plans.

Denis R. J. George,
Fellow of the Institute of Actuaries.

William M. Mercer Limited
Montreal, February 21, 1964.

Statistics of Rail-Line Operations

		1963	1962	% Increase or Decrease
Train Miles	Freight service	35,796,950	34,283,043	4.4
	Passenger service	17,079,631	18,096,980	5.6
	Work service	1,802,601	1,634,258	10.3
	Total train miles	54,679,182	54,014,281	1.2
Locomotive Miles	Freight service	36,116,058	34,545,765	4.5
	Passenger service	15,131,531	16,072,350	5.9
	Switching service — Road and Yard	17,868,774	17,947,807	0.4
	Work service	1,845,157	1,657,702	11.3
	Total locomotive miles	70,961,520	70,223,624	1.1
Car Miles	Freight Service:			
	Loaded	1,180,853,158	1,110,109,898	6.4
	Empty	746,696,479	680,423,883	9.7
	Other	12,753,719	14,257,575	10.5
	Caboose	36,667,660	35,075,508	4.5
	Passenger — Coach and Combination	2,710,376	3,231,400	16.1
		1,979,681,392	1,843,098,264	7.4
	Passenger Service:			
	Coach and Combination	38,557,790	39,278,731	1.8
	Sleeping, Parlour and Observation	39,811,267	40,601,819	1.9
	Dining	9,005,292	7,948,251	13.3
	Motor Unit	3,876,828	3,806,184	1.9
	Other (baggage and express, etc.)	70,663,805	79,132,838	10.7
	Freight — loaded	1,100,731	1,423,952	22.7
	Freight — empty	157,786	372,441	57.6
		163,173,499	172,564,216	5.4
	Work Service	2,869,321	2,804,515	2.3
	Total car miles	2,145,724,212	2,018,466,995	6.3
Ton Miles	Gross ton miles — all services (excluding passenger cars on passenger trains)	89,026,289,000	80,715,356,000	10.3
	Net ton miles — all services	40,751,668,000	36,110,915,000	12.9
Average Miles of Road Operated		24,709.57	24,753.38	0.2
Freight Traffic	Freight revenue	\$ 552,221,071	529,307,712	4.3
	Tons carried — Revenue freight	84,078,393	78,384,773	7.3
	Ton miles — Revenue freight	40,171,173,489	35,595,425,349	12.9
	Train hours in freight road service	1,573,046	1,548,194	1.6
	Averages Per Mile of Road:			
	Freight revenue	\$ 22,348	21,383	4.5
	Train miles	1,449	1,385	4.6
	Total freight train car miles	79,549	73,827	7.8
	Ton miles — Revenue freight	1,625,733	1,438,003	13.1
	Ton miles — All freight	1,649,226	1,458,828	13.1
	Averages Per Loaded Car Mile:			
	Freight revenue	\$ 46.7	47.6	1.9
	Ton miles — All freight	34.5	32.5	6.2

Statistics of Rail-Line Operations (continued)

		1963	1962	% Increase or Decrease
Freight Traffic (Continued)	Miscellaneous Averages:			
	Revenue per ton	\$ 6,568	6,753	2.7
	Revenue per ton mile	¢ 1.375	1,487	7.5
	Miles hauled per revenue ton	477.8	454.1	5.2
	Cars per train — loaded	33.0	32.4	1.9
	Cars per train — empty	20.9	19.8	5.6
	Gross load — Freight trains (tons)	2,485	2,352	5.7
	Net load — Freight trains (tons)	1,138	1,053	8.1
	Gross ton miles per freight train hour	56,561	52,085	8.6
	Train speed — Miles per hour	22.8	22.1	3.2
	Diesel unit miles per serviceable day (excluding stored)	234	217	7.8
Passenger Traffic	Passenger revenue	\$ 34,491,894	34,331,531	0.5
	Revenue passengers carried*	13,598,961	12,443,945	9.3
	Revenue passenger miles*	1,189,051,239	1,044,192,458	13.9
	Averages Per Mile of Road:			
	Passenger revenue	\$ 1,396	1,387	0.6
	Train miles	691	731	5.5
	Total passenger train car miles	7,173	7,603	5.7
	Revenue passenger miles*	48,121	42,184	14.1
	Averages Per Car Mile — Passenger:			
	Passenger revenue	¢ 41.3	40.2	2.7
	Revenue passenger miles*	14.2	12.2	16.4
	Miscellaneous Averages:			
	Revenue per passenger*	\$ 2.536	2,759	8.1
	Revenue per passenger mile*	¢ 2.901	3,288	11.8
	Average passenger journey (miles)*	87.4	83.9	4.2
	Percent on time arrival — selected principal trains	80.8	79.3	1.9
	Diesel unit miles per serviceable day (excluding stored)	385	379	1.6
Operating Results	Total operating revenues per mile of road	\$ 30,852	29,827	3.4
	Total operating expenses per mile of road	30,467	29,850	2.1
	Net railway operating income loss per mile of road	385	23	

***Note:** In 1963 an improved method was used in compiling these statistics.
For comparability the 1962 figures have been restated.

		1963	1962	Increase or Decrease Tons	%
Revenue Tonnage Carried (by classes of commodities)	Agricultural Products	15,953,322	13,464,634	2,488,688	18.5
	Animals and Animal Products	630,869	662,726	31,857	4.8
	Mine Products	28,015,448	27,108,716	906,732	3.3
	Forest Products	9,335,912	9,096,858	239,054	2.6
	Manufactured and Miscellaneous	29,506,969	27,256,436	2,250,533	8.3
	Total Carload Freight	83,442,520	77,589,370	5,853,150	7.5
	All less than carload freight	635,873	795,403	159,530	20.1
	Grand Total	84,078,393	78,384,773	5,693,620	7.3

A 25-Year Synoptical History of the Canadian National Railways

Year	Gross Revenues	Railway Operating Revenues*	Railway Operating Expenses*	Net Railway Operating Profit or Loss*	Other Income*	Surplus or Deficit before Interest Charges	Interest on Debt	Surplus or Deficit	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees
	Millions	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	¢	Millions	¢	
1939	\$207.2	\$199,517	\$187,091	\$12,426	\$ 967	\$13,393	\$53,488	\$40,095	17,084	.938	875	2.035	81,672
1940	251.5	243,099	207,115	35,984	356	36,340	53,305	16,965	21,532	.904	1,125	1.929	86,366
1941	308.8	299,230	243,766	55,464	1,714	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362
1942	380.6	369,745	295,306	74,439	2,294	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651
1943	446.0	433,527	353,158	80,369	7,460	87,829	52,190	35,639	36,327	.894	3,619	1.848	106,893
1944	446.8	434,149	366,680	67,469	6,032	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278
1945	439.7	426,233	358,972	67,261	6,505	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591
1946	407.6	393,246	361,634	31,612	6,111	37,723	46,685	8,962	30,812	.975	2,289	2.190	109,809
1947	446.0	430,512	406,335	24,177	5,864	30,041	45,926	15,885	32,945	1.040	1,845	2.332	112,801
1948	499.7	483,396	471,589	11,807	1,002	12,809	46,342	33,533	32,943	1.195	1,755	2.368	115,395
1949	509.4	491,478	484,728	6,750	161	6,589	48,632	42,043	30,922	1.276	1,621	2.671	116,057
1950	562.6	543,275	502,252	41,023	3,138	44,161	47,422	3,261	31,988	1.394	1,408	2.834	116,347
1951	634.1	612,802	585,615	27,187	5,958	33,145	48,177	15,032	36,435	1.369	1,611	2.947	124,608
1952	684.5	661,349	640,233	21,116	4,441	25,557	25,415	142	38,430	1.397	1,635	2.964	131,297
1953	707.7	680,669	660,248	20,421	9,199	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109
1954	652.1	623,552	623,965	413	4,182	3,769	32,527	28,758	32,882	1.529	1,472	2.973	122,237
1955	693.9	664,613	630,140	34,473	9,249	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430
1956	785.7	754,931	710,977	43,954	13,906	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639
1957	764.4	732,427	735,679	3,252	10,651	7,399	36,972	29,573	36,674	1.601	1,499	3.124	124,620
1958	716.3	680,993	698,327	17,334	12,264	5,070	46,521	51,591	35,077	1.554	1,269	3.270	113,086
1959	751.9	712,976	719,000	6,024	11,234	5,210	48,798	43,588	35,542	1.613	1,272	3.159	111,538
1960	723.4	663,214	681,692	18,478	12,004	6,474	61,023	67,497	34,011	1.547	1,208	3.171	104,155
1961	745.5	677,380	693,605	16,225	11,393	4,832	62,476	67,308	34,723	1.480	1,076	3.234	99,564
1962	772.1	701,623	707,442	5,819	19,398	13,579	62,498	48,919	35,595	1.487	1,044	3.288	97,922
1963	800.0	725,181	720,170	5,011	16,179	21,190	64,204	43,014	40,171	1.375	1,189	2.901	92,571**

* Restated to reflect inclusion of net income from Telecommunications Department in Other Income.

** Based on a new method of counting effective January 1, 1963. On former method of counting, the 1963 average was 95,906.

